

THE OFFICE OF THE MONTANA STATE AUDITOR PRESENTS



# THE PENNY CONFERENCE

MONEY MATTERS FOR MONTANA WOMEN

**A FREE ONE-DAY WORKSHOP TO  
SHIFT YOUR THINKING ABOUT  
MONEY OR MAYBE EVEN YOUR LIFE**

JANUARY 20, 2016 :: UNIVERSITY OF MONTANA SCHOOL OF BUSINESS ADMINISTRATION

# Protecting Yourself From Financial Exploitation

**Presented By:**

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*Commissioner of Securities and Insurance*

Jesse Laslovich,  
*Chief Legal Counsel*  
*for the Commissioner of Securities and Insurance*



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# The Role of the CSI



The Office of the Montana State Auditor, Commissioner of Securities and Insurance (CSI) is a criminal justice agency whose primary mission is to protect Montana's consumers through insurance and securities regulation. We work hard everyday to educate and assist the public about the wide range of issues in insurance and securities. We are committed to ensuring fairness, transparency and access in the securities and insurance industries.



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# Gold Diggers: Trust Betrayed

Gold Diggers: Trust Betrayed



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# Identifying A Pyramid Scheme

## Is there a product?

Pyramid schemes don't have products. A pyramid scheme consists of signing people up under you to create a pyramid like structure. There is no exchange of products and services.



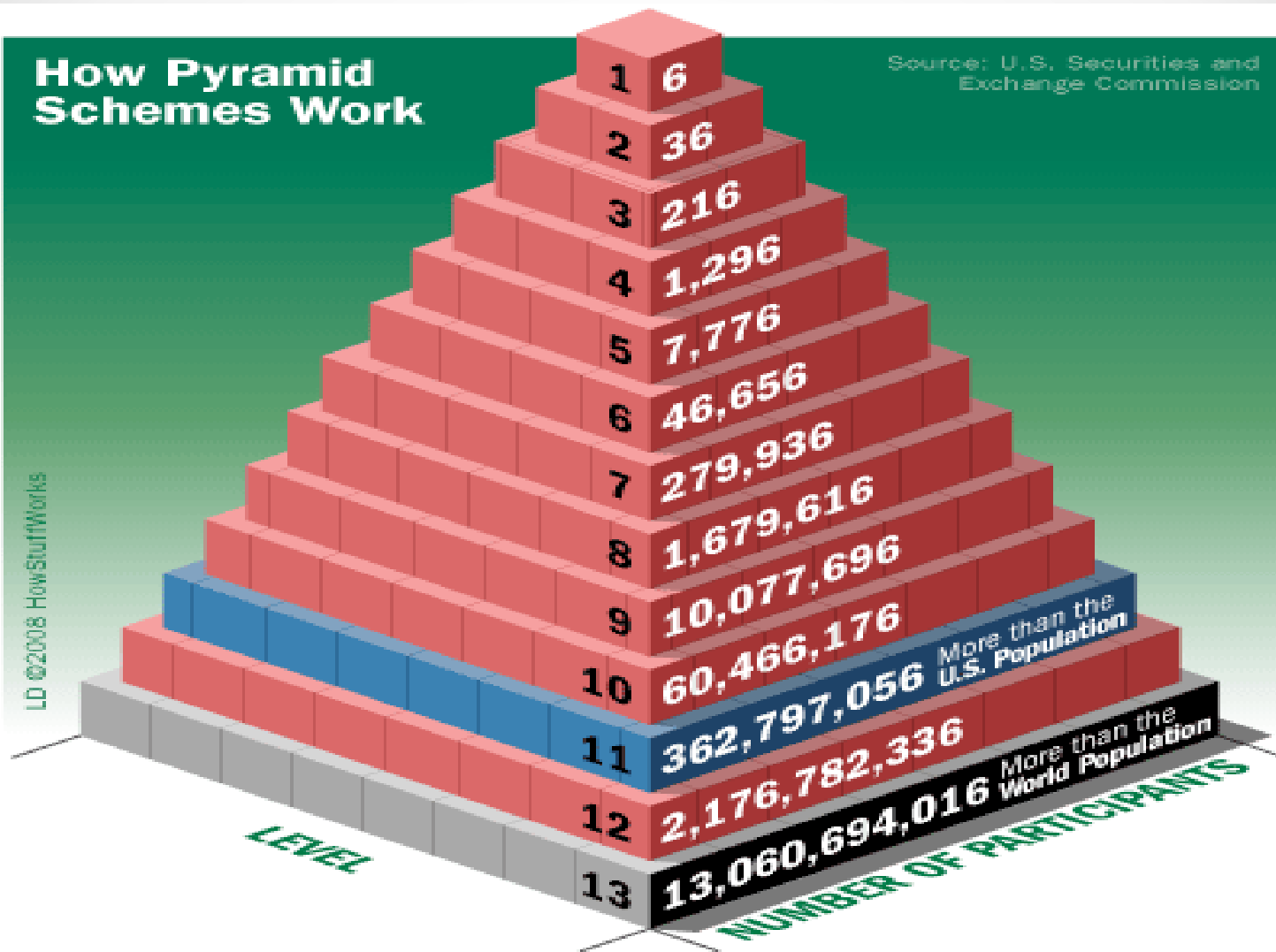
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# How Pyramid Schemes Work

Source: U.S. Securities and Exchange Commission

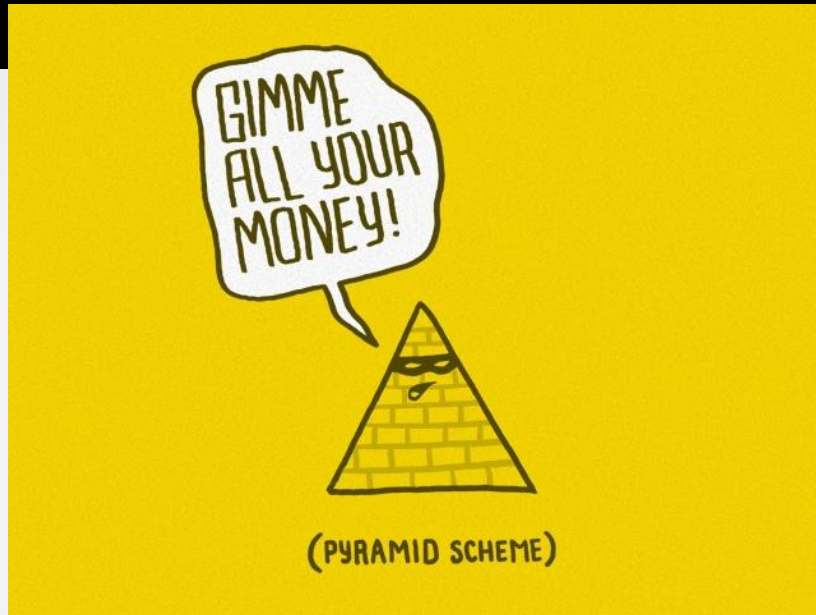
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# Pyramid Scheme vs Multilevel Marketing



## **Pyramid Scheme:**

You only make money by recruiting people.



## **Multilevel Marketing:**

You make money by selling a product or service.



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# Pyramid Schemes Protection

I thought they were my friends, until they asked me to join their pyramid scheme.



someecards  
user card

Before investing in any sales plan or operation that offers the opportunity to make money from the recruitment of new participants, call the CSI to see if the company has made the required filing.

**Toll-free (800) 332-6148**



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# What's A Promissory Note?

I, Jane Doe, residing at 111 Maple Dr., Los Angeles, CA 90435, hereby promise to pay back, in full, the borrowed amount of \$1800 plus interest to John Smith at 5432 Applewood St., Los Angeles, CA 90456.

- Promissory notes are a written promise to pay a specified amount to a specific entity at a specific time or upon demand, with or without interest.
- Promissory notes are a security so individuals issuing the notes must ensure the transaction complies with securities laws.



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# Promissory Note Scams

NEGOTIABLE  
BONDED PROMISSORY NOTE  
Ref. Bond No. RA 219 314 616 US-DH  
NEGOTIABLE

Note Number: DRH03151977BPN2873 \* Date: July 23, 2009  
USPS Tracking # [REDACTED]

Pay to the Order of [REDACTED] LAW OFFICES, P.A. \$8,200.36 USD  
Eight thousand two hundred dollars and thirty-six cents

MEMO: This Note shall be applied as Full Payment and Satisfaction on behalf of [REDACTED] for the settlement of CASE NUMBER [REDACTED] LAW OFFICES, [REDACTED] PENSACOLA, FL. 32501 for the Full Value of said Account and the Immediate Release and Discharge of said Party from all related Liabilities, Contracts, Accounts, and Obligations deriving therefrom. Ledger all Fees associated with this transaction against the Offset Bond # DRH111207T1-POB1, USPS Tracking Number [REDACTED]

This instrument is a BONDED PROMISSORY NOTE tendered by the Undersigned Denny Ray Hardin, hereinafter "Maker," in good faith, and in accordance with law, as full satisfaction of a debt owed in favor of Payee herein, on behalf of the Party and Account as noted in the above Memo.

On this Twenty- Third day of July 2009, I, Denny Ray Hardin, do hereby negotiate this instrument to Pay to Payee \$8,200.36 USD, Payable on demand upon presentation of this original instrument properly endorsed on or after July 23, 2009 AD. This state will constitute Maker's promise for paying this instrument upon Presentment.

As an operation of law, Payee tacitly consents and agrees that there shall be no satisfaction by use of this instrument for satisfying Payee's claim against [REDACTED] hereon charged from liability on this account and the obligation is extended.

Denny Ray Hardin  
Kansas City, Missouri  
Dated: July 23, 2009

Witness: [Signature] Witness: [Signature]

Authorized person indorse below. Print name and official title when presenting this instrument for payment.  
Government-issued ID with photograph required. i.e. only the following types of ID accepted: state-issued Drivers License, state-issued Identification Card, Passport.

Printed Name of Endorser \_\_\_\_\_ Form of Photo Identification \_\_\_\_\_  
Official Title of Endorser \_\_\_\_\_ Form of Official Identification \_\_\_\_\_  
Date of Presentment and Endorsement \_\_\_\_\_ Signature of Endorser \_\_\_\_\_

Private Discharging and Indemnity Bond # DRH01307-1  
USPS TRACKING NUMBER: [REDACTED]  
Offset Bond# DRH111207T1-POB1  
USPS TRACKING NUMBER: [REDACTED] Issue Date: July 23, 2009

- Notes marketed broadly to individual investors often turn out to be scams
- Legitimate corporate and other types of promissory notes are not usually sold to the general public.
- The higher the interest rate – the greater the risk.



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# Promissory Note Protection

Oh, i'm sorry.  
I thought you  
meant what  
you promised.  
**Silly Me.**

PinQuotes App

- Promissory notes are illiquid and are often unsecured without any collateral backing the investment.
- The promissory note and the person offering the promissory note must be registered or exempt from registration.
- Call the CSI to make sure the investment complies with the law.



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# Ponzi Scheme



Charles Ponzi



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# Recent Schemes Affecting Montanans



Bernard Madoff



Richard Reynolds



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# Ponzi Protection



Before investing or getting involved in any program, call the CSI to see if the person proposing the investment is licensed.

**Call (800) 332-6148**



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# Unsuitable Investment



The law requires stockbrokers and financial planners to only recommend to clients investments that are appropriate based on a clients:

- Age
- level of sophistication
- liquidity needs
- risk tolerance
- investment objectives
- other factors known to the broker.



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# Unsuitable Investment Protection



- Clearly articulate your investment objectives
- Ask for and read materials about the investments
- Call the CSI if you have questions



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# Exotic Investments

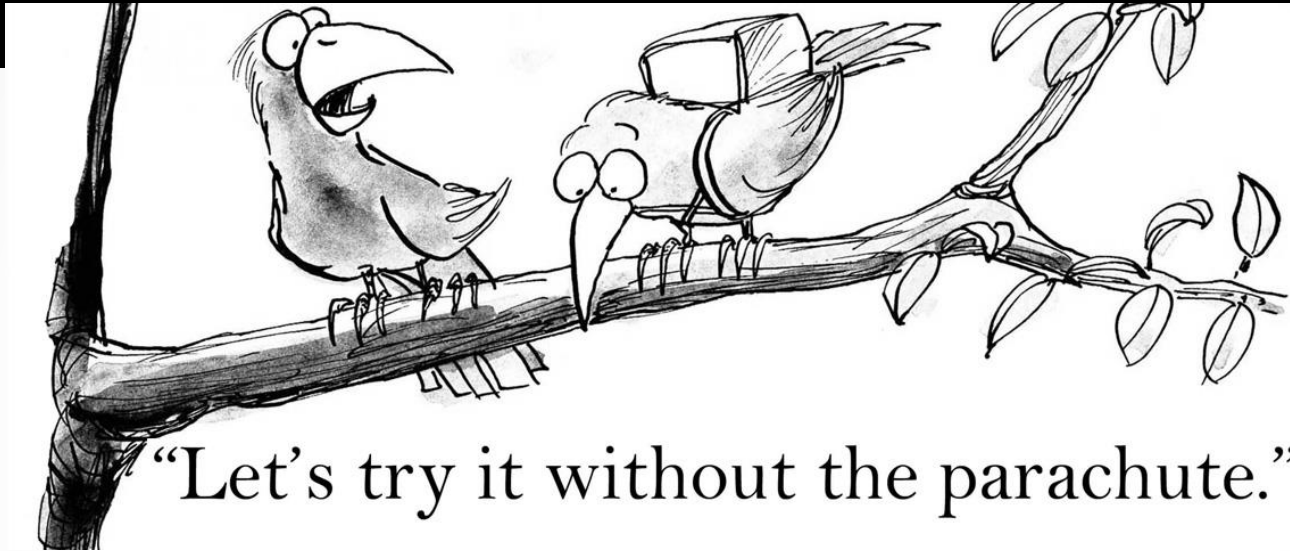


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# Exotic Investment Protection



“Let’s try it without the parachute.”

Investigate the investment thoroughly and have a clear understanding of the involved risk and reward before you invest.



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# Churning and Unauthorized Trading



- **Churning** is excessive trading by a broker in a client's account that provides little to no benefit to the client while generating commissions for the broker.
- **Unauthorized trading** is trading in a client's account without first obtaining the client's approval for the trade.



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# Churning & Unauthorized Trading Protection



- Your broker must call you before any trade can occur in your account
- Open all mail from your broker and make sure you approved all trades on your statement.
- Ask your accountant if the activity in your brokerage account is benefiting you



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# Natural Resource Scams



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# Natural Resource Protection



- Like traditional investments, natural resource investments can only be offered by a registered person.
- Investigate the investment opportunity and call the CSI.



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# Crowdfunding

**KICKSTARTER**

 **indiegogo**

 **gofundme**

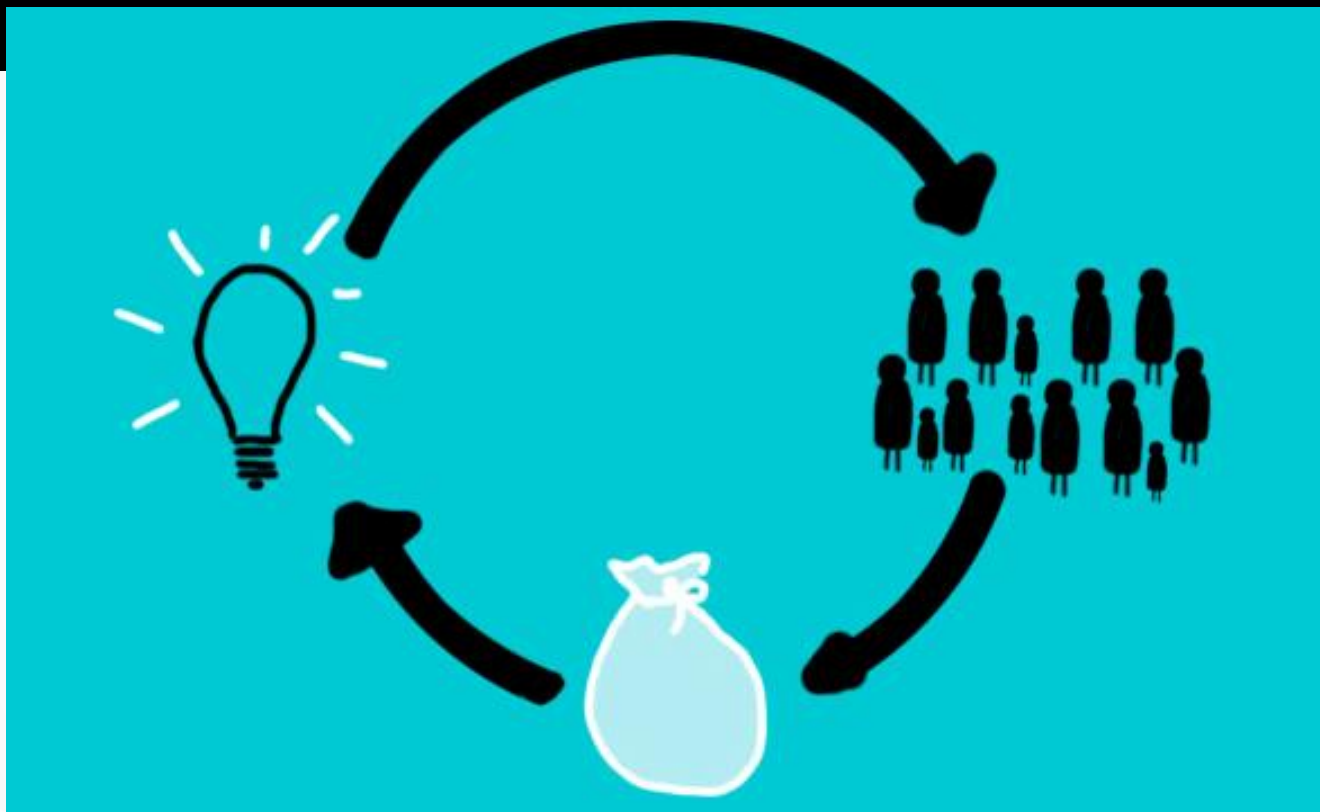


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# Crowdfunding



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# Crowdfunding Protection



- Investors need to receive and read information about the investment opportunity and understand the risks associated with the investment.
- Crowdfunding investment opportunities are in small businesses which have higher than normal failure rates.
- Crowdfunding investments virtually illiquidity with little to no resale opportunity.



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# Annuities



- Annuities guarantee a fixed or variable payment to the investor as some future time, usually at retirement.
- Annuities are intended to be long term investments that have an accumulation phase before any distribution is to take place and they often have high set-up costs and high early withdrawal penalties.



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# Annuity Fraud Prevention

FREE  
LUNCH  
ANY ONE?

- Understand the time commitment, set-up costs and early withdrawal penalties.
- Annuities are often sold at publicly advertised “free lunch seminars” and are touted as estate planning tools or as a way to avoid paying taxes.
- Annuities are rarely appropriate for an older investor due to their time commitment and lack of liquidity.
- Be wary of any recommendation to sell early or buy different annuities as this may be an effort to generate commissions for the broker.



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# Private Placements – REG D



Private placements, also known as REG D offerings, are illiquid investment opportunities generally made available only to high net worth investors.



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# Private Placement Protection



- Private placement offerings are not reviewed or approved by any securities regulatory authority.
- Individuals offering private placements oftentimes are not licensed
- If your net worth does not exceed \$1 million, if need access to your money in the future, and if you cannot afford to lose your entire investment, do not invested in a private placement offering.



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BrokerCheck Commercial: Wedding



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